

*The purpose of this report is to keep policy makers apprised of changes in  
the national and local economies that  
the Montgomery County Department of Finance  
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet  
on the Montgomery County Web Page:  
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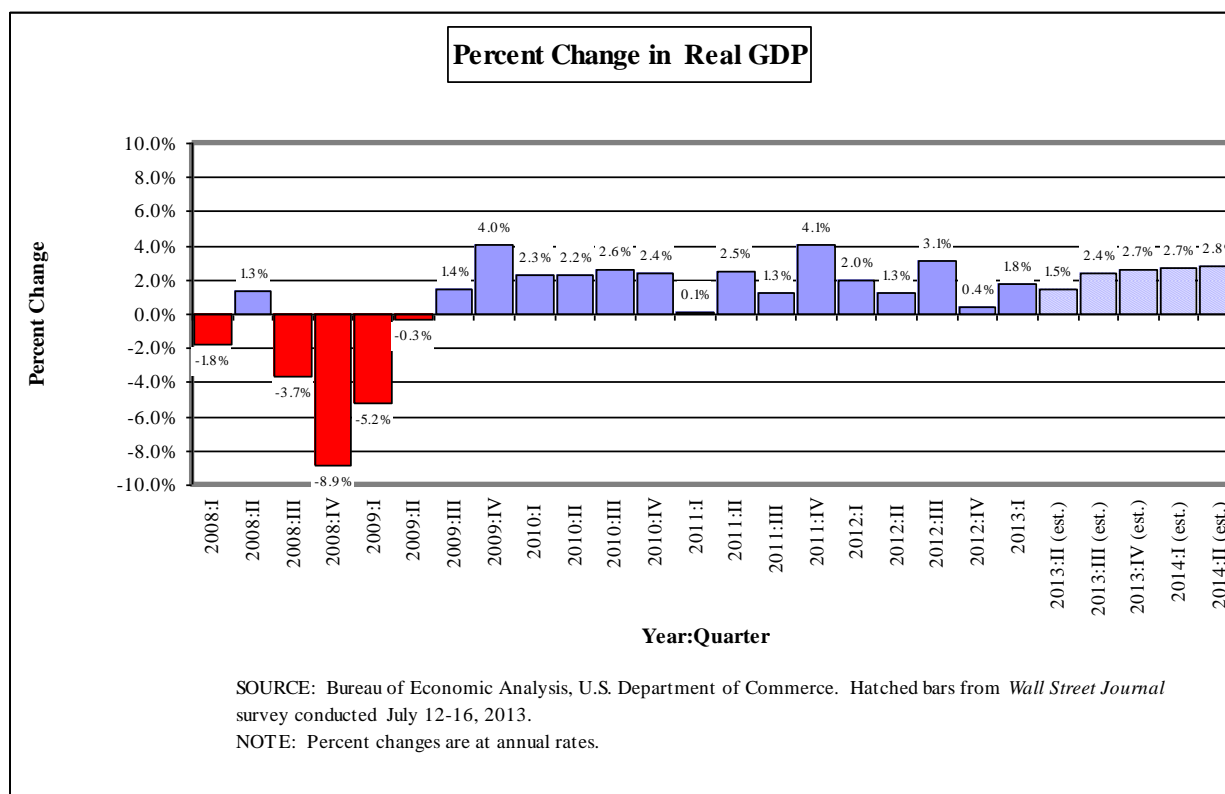
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## NATIONAL ECONOMY

According to the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at 1.8 percent seasonally adjusted annual rate during the first quarter of 2013. That increase follows fourteen consecutive quarters of growth since the end of the recession in June 2009. Based on the July *Wall Street Journal* (WSJ) survey (July 12 – 16), fifty economists surveyed expect economic growth to increase 1.5 percent, on average, during the second quarter of 2013 (April to June) and an increase of 2.1 for calendar year 2013 and 2.8 percent for calendar year 2014. The survey of economists expects the jobless rate to be at 7.3 percent at the end of 2013 and 6.7 percent at the end of 2014. The result of the survey of economists shows that inflation pressures will remain subdued into 2014.

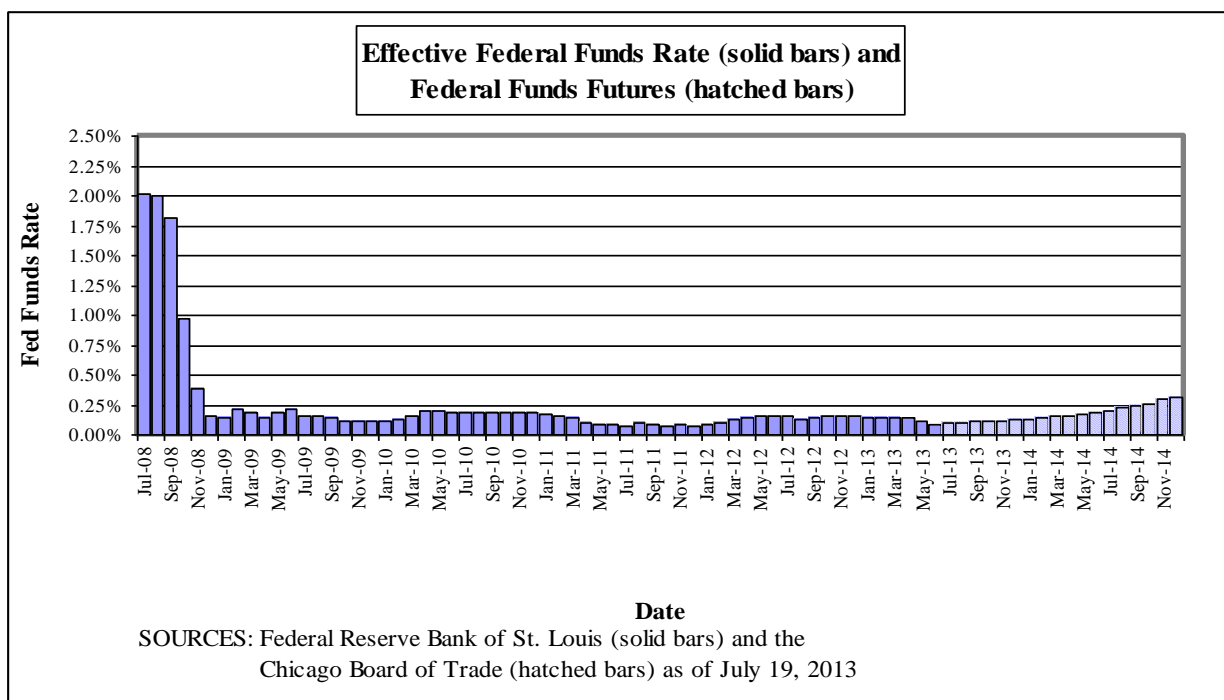


Data released by BEA for the first quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures ( $\uparrow 2.6\%$  - up from the 1.8% during the fourth quarter of last year), gross private domestic investment ( $\uparrow 7.4\%$  - up from the 1.3% during the fourth quarter) led by residential fixed investment ( $\uparrow 14.0\%$  - but down slightly from the 17.6% during the fourth quarter) and real private inventories which added 0.57 percentage point to the first-quarter change in real GDP. Private businesses increased inventories \$36.7 billion in the first quarter, following increases of \$13.3 billion in the fourth quarter and \$60.3 billion in the third. The increases in personal consumption, private investment, and inventories were offset by decreases in federal government spending, and state and local government spending.

Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased 1.2 percent during the first quarter compared to 1.9 percent during the fourth quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy.

Following its meeting on June 18 and 19, the Federal Open Market Committee (Committee - FOMC) of the Federal Reserve stated in its press release that “economic activity has been expanding at a moderate pace. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated.” The Committee also stated that “to support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens.” The Committee will maintain the target range of the federal funds rate at 0.00 to 0.25 percent and the low range will be appropriate as long as the unemployment rate remains above 6.5 percent and inflation expectations over the next two years are no more than 0.50 percentage point above the Committee’s target goal of 2.00 percent. The June unemployment rate remained at 7.6 percent compared to 7.6 percent in May and 7.5 percent in April. The Committee also decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.

Since the June meeting of the Federal Open Market Committee, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through September 2014. After that date, the futures market expects the rate to gradually increase to between 0.30 and 0.31 percent by the end of 2014.



Following its June meeting, the Committee also provided its economic projections through 2015. The Committee expects the unemployment rate to remain elevated at the 7.2 - 7.3 percent level in 2013 then declining in 2014 to a range between 6.5 - 6.8 percent. Given the projection for 2014, it can be assumed that the Committee will not increase the target range of the federal funds rate until 2015. Secondly, the Committee also expects inflation as measured by the personal consumption expenditure excluding food and energy, i.e. core PCE inflation, to remain between 1.2 and 1.3 percent in 2013 and between 1.5 and 1.8 percent in 2014. Again, it also can be assumed that the Committee will not increase the target range of the federal funds rate until 2015.

In his testimony before the Committee on Financial Services, U.S. House of Representatives, on July 17, Chairman Bernanke stated that he and his colleagues at the June meeting “projected that economic growth would pick up in coming quarters, resulting in gradual progress toward the levels of unemployment and inflation consistent with the Federal Reserve’s statutory mandate to foster maximum employment and price stability.” Mr. Bernanke further stated that “most participants saw real GDP growth beginning to step up during the second half of this year, eventually reaching a pace between 2.9 and 3.6 percent in 2015. They projected the unemployment rate to decline to between 5.8 and 6.2 percent by the final quarter of 2015.”

According to economic analysts, business spending usually increases before consumer spending as the economy continues to expand. Spending on equipment and software increased at a seasonally adjusted annual rate of 4.1 percent during the first quarter. That increase was fourteenth out of fifteen quarters since the end of the recession. Consumer spending as measured by personal consumption expenditures (PCE) increased 2.6 percent at a seasonally adjusted annual rate during the first quarter and was the thirteenth consecutive quarterly increase since the end of the recession. With business spending outpacing consumer spending over the past fourteen quarters, the economy is expected to continue to expand over the near term as projected by the Federal Open Market Committee and the July *WSJ* survey.

Sales of existing homes decreased 1.9 percent from May to June but increased 15.2 percent over June 2012. Median home prices for existing homes increased in June over May (↑5.5%) and 13.5 percent over June 2012. Average prices increased 4.0 percent in June from the previous month and 9.6 percent over June of last year. The inventory-to-sales ratio for new homes for sale was 5.2 in June and up from the 4.6 average ratio between November 2012 to March 2013. The improved strength in residential prices is attributed to an improvement in the job market, low mortgage rates, and the decline in foreclosures.

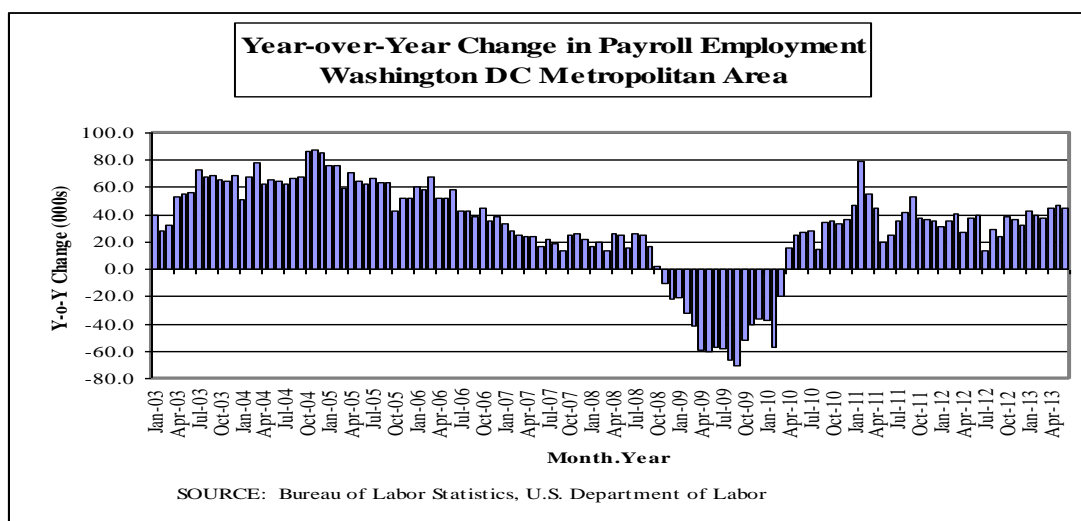
According to the Bureau of Labor Statistics, total nonfarm employment (payroll employment – seasonally adjusted) increased by nearly 200,000 (195,000) in June – the second consecutive month in which payroll employment grew by almost 200,000 over the previous month (195,000 in May and 199,000 in April). For the first half of this year, payroll employment increased by over 1.2 million. Total private employment rose by 202,000 in June. During the first half of this year, total private employment jobs increased by nearly 1.3 million. Government employment lost 7,000 jobs in June and lost 27,000 jobs during the first half of 2013. The unemployment rate (seasonally adjusted) was 7.6 percent in June and averaged 7.7 percent during the first half of

2013. Employment, as measured by the survey of households, increased by 753,000 since the beginning of the year. Comparing both measures of employment, payroll employment (measured by the survey of business establishments) has grown at a faster pace than employment measured by the survey of households. Such a comparison helps explain the difference in the measures of national employment.

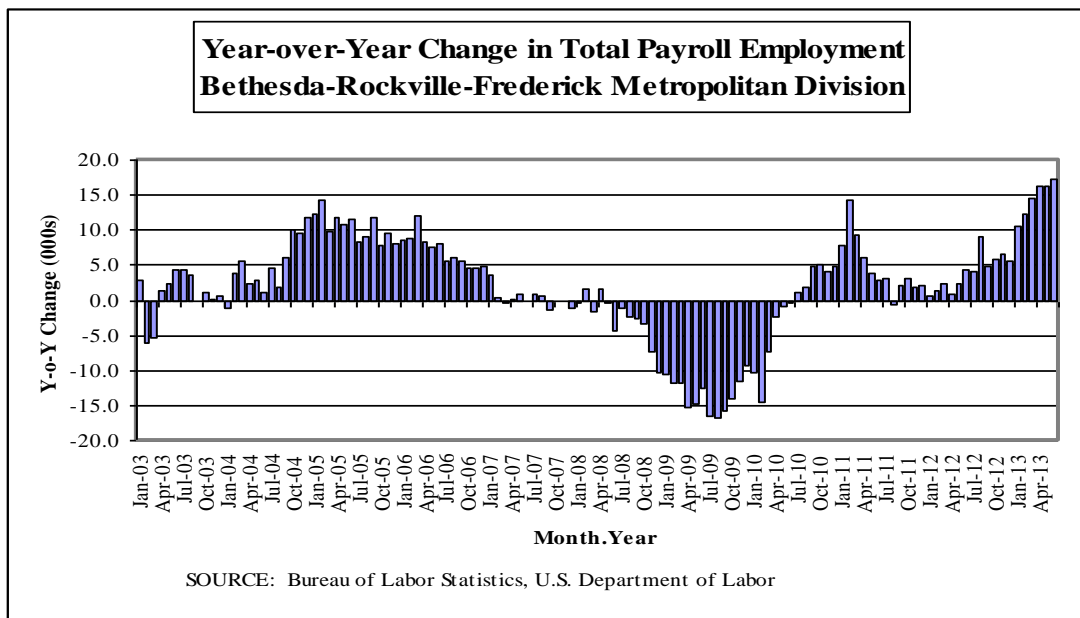
After strong returns last year, the stock market has continued to experience double-digit growth through the week ending July 19. All four stock market indices – the Dow-Jones Industrial Average ( $\uparrow 18.62\%$ ), the Standard & Poor's 500 ( $\uparrow 18.64\%$ ), the NASDAQ ( $\uparrow 18.81\%$ ), and the Russell 2000 ( $\uparrow 23.68\%$ ) – experienced dramatic growth. While the Dow Jones Industrial Average and the S&P 500 indices have experienced their best performance since the late 1990s, the issue is whether this strong pattern of growth to date would be followed by a weak performance through the remainder of the calendar year. The strength of the stock market has been attributed to the policies of the Federal Reserve and its asset purchasing program. The question is when will the Federal Reserve begin to “taper” its purchasing program? Some market analysts predict that the “tapering” will begin immediately after the two-day meeting of the FOMC in September, while other analysts suggest such “tapering” will not occur until the end of this year. When such action occurs, it most likely will have an effect on the stock market given the reaction of the stock market from previous comments by the Chairman and other members of the FOMC regarding “tapering.”

## REGIONAL ECONOMY

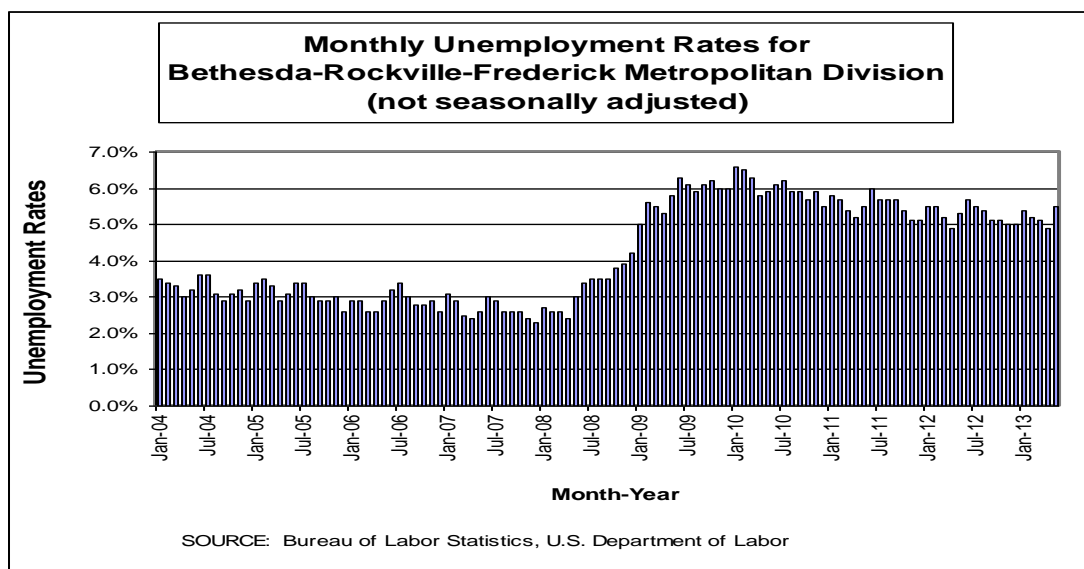
According to the employment data from the Bureau of Labor Statistics, U.S. Department of Labor, the Washington area economy is experiencing the same pattern that is being reflected in national trends. Total payroll employment, that declined in earnest on a year-over-year basis starting in November 2008 and continued through March of 2010, has improved dramatically over the past three years ending in June of this year. Total payroll employment stood at 3.108 million (not seasonally adjusted) in June – up from the 3.064 million in June of last year – an increase of 44,400 jobs and 183,600 between March 2010 and June of this year.



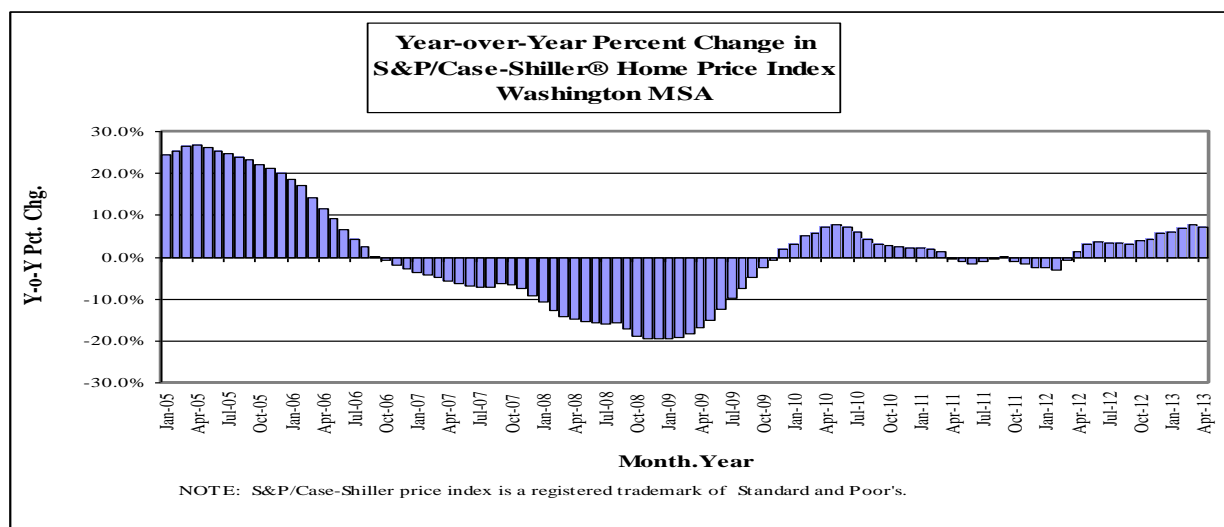
Payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division experienced significant growth during the first half of 2013. Total payroll employment stood at 590,500 (not seasonally adjusted) – an increase of 17,300 over June 2012 and 15,300 since the beginning of the year. The June payroll of 590,500 was the highest ever and surpassed the previous high of 584,800 in May of this year.



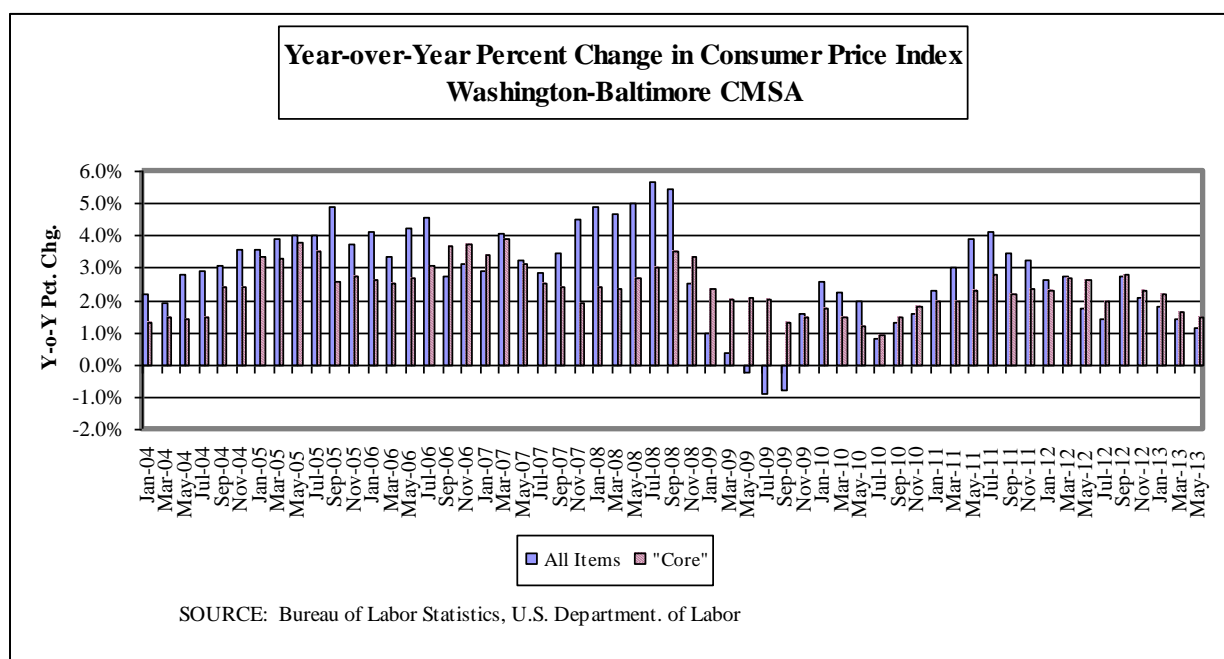
Because payroll employment experienced growth the past year, the unemployment rate for the BRF metropolitan division continued to decline from its peak of 6.6 percent in January 2010 to 5.5 percent in May. The unemployment rate for the division remains one of the lowest among the 34 national metropolitan divisions.



The resale housing market across the region experienced a growth in prices, on a year-over-year basis, between April 2012 and April of this year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in April increased 7.2 percent over the twelve-month period.

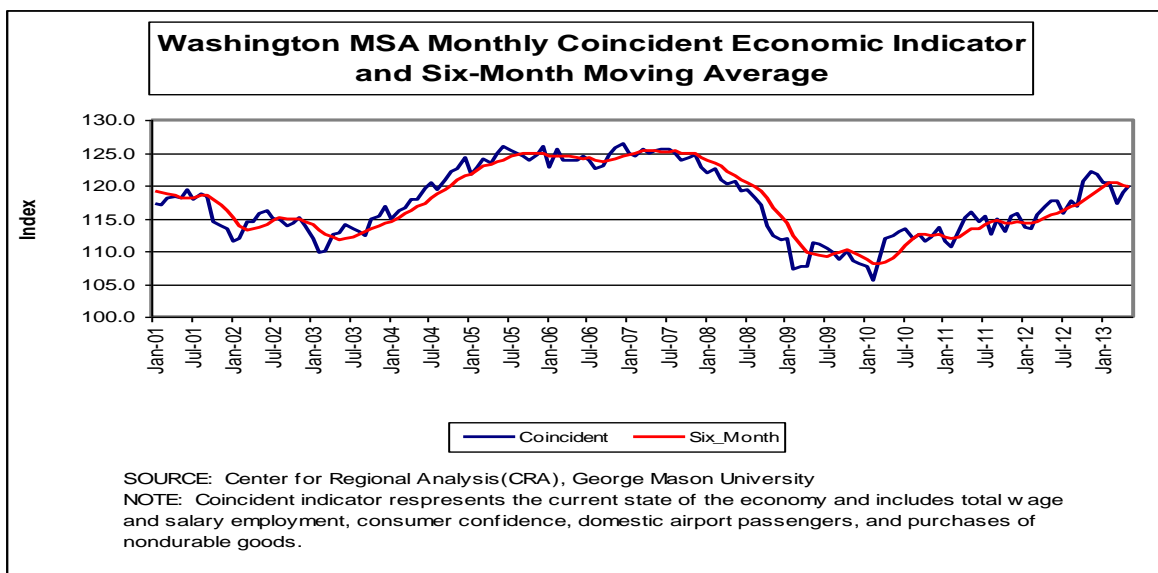


As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 1.2 percent on a year-over-year basis in May, i.e., May 2013 over May 2012. Consumer prices excluding food and energy purchases were up 1.5 percent in the region (on a year-over-year basis), which was lower compared to the national rate (↑1.7%) over the same May 2012-to-May 2013 period.

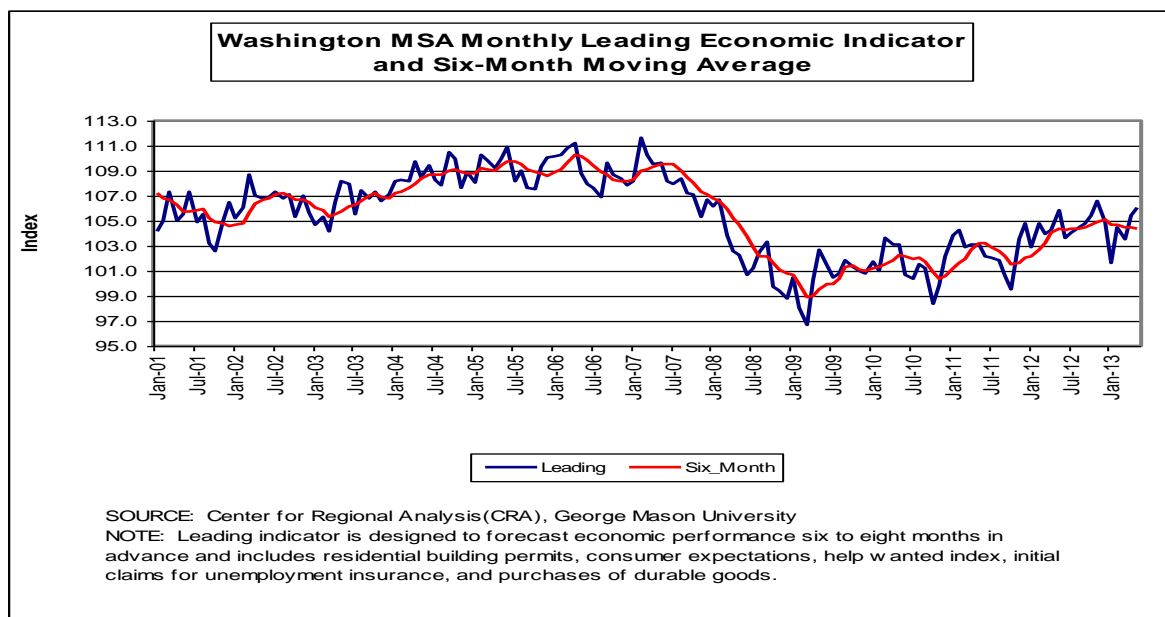




According to the Center for Regional Analysis (CRA) at George Mason University, the monthly coincident economic indicator for the Washington metropolitan region increased 0.8 percent in May over April and 2.0 percent over May of last year. The coincident index measures the current performance of the region's economy. Since reaching its lowest point in February 2010, the index increased 10.7 percent through May of this year.



CRA also reports that the leading economic indicator increased 0.7 percent in May over April and 0.3 percent since May 2012. The leading index measures the economic performance of the region six months ahead. While the index has increased 9.7 percent since its lowest level in March 2009, the modest growth over the past year suggests that the region's economy will increase at a moderate rate over the next six to nine months.

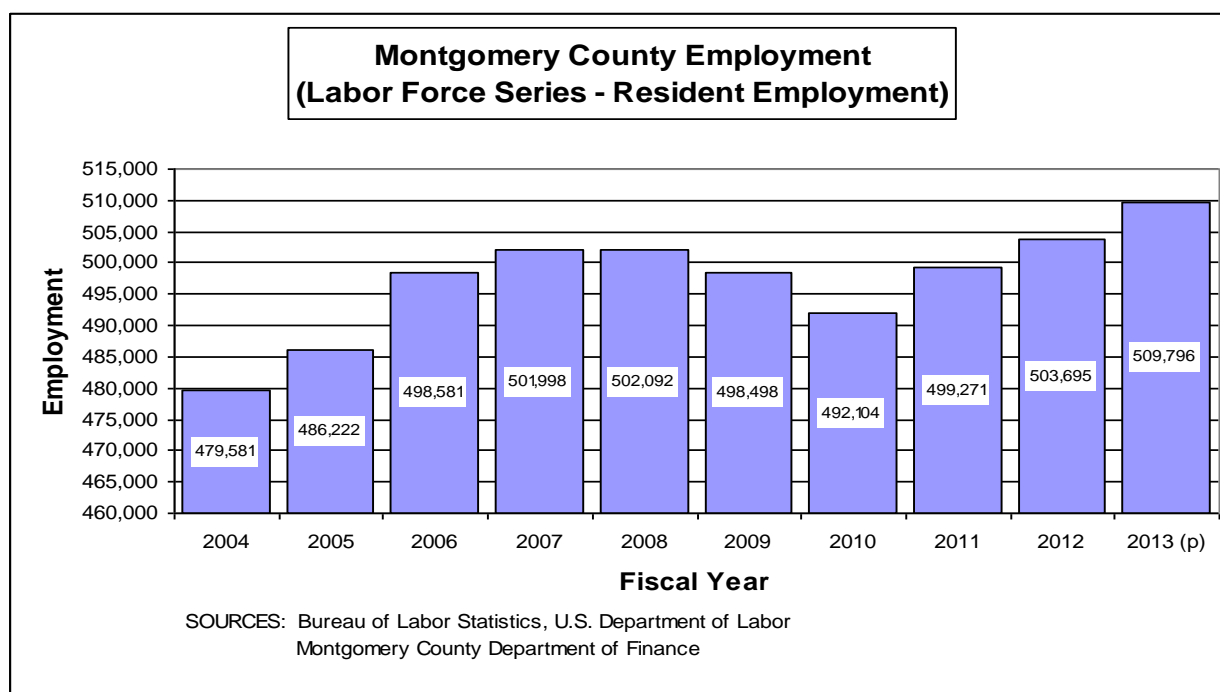


## MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County's economic performance improved during fiscal year (FY) 2013. The major reasons for the improvement were a modest decrease in the unemployment rate, an increase in employment – both resident (labor force series) and payroll employment (establishment series), and an increase in sales and median prices for existing homes. Residential construction also picked up in FY2013.

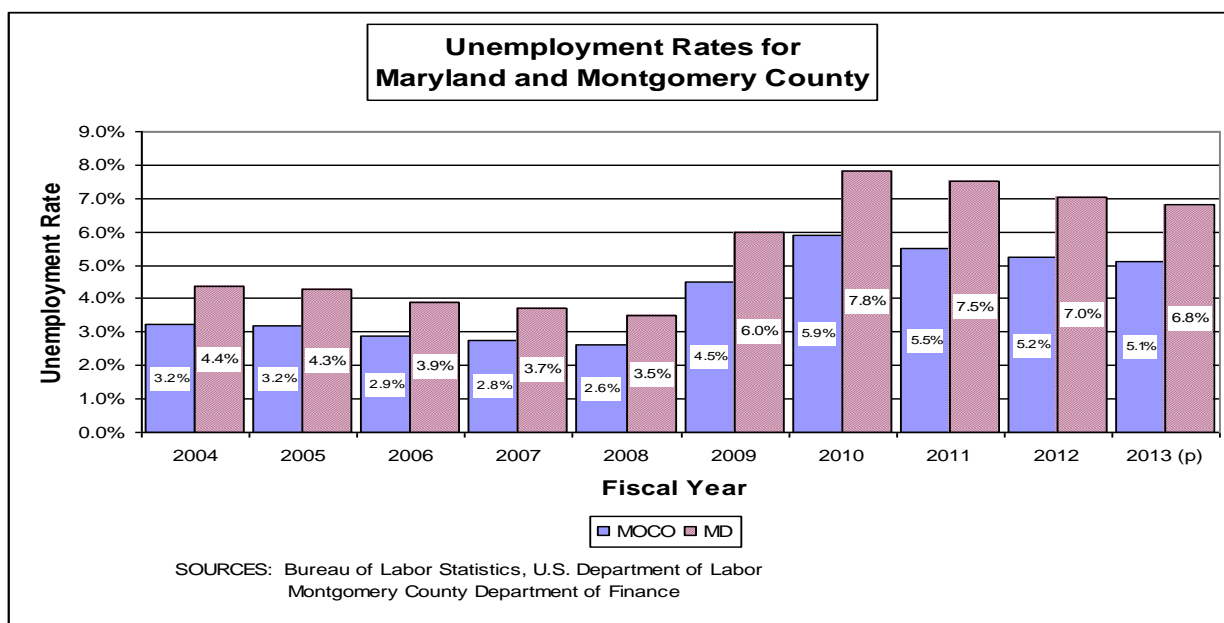
### *Employment Situation*

Based on data from the Bureau of Labor Statistics, U.S. Department of Labor, and the Maryland Department of Labor, Licensing and Regulation (DLLR), resident employment (labor force series and not seasonally adjusted) in Montgomery County is estimated to have increased by 6,100 (↑1.2%) during FY2013. Resident employment in the County as derived from a survey of households rather than establishments increased from 503,700 in FY2012 to an estimated 509,800 in FY2013. The County's unemployment rate declined slightly from 5.2 percent in FY2012 to an estimated 5.1 percent in FY2013. Throughout the calendar year, the County's unemployment rate remained one of the lowest in the State and has averaged 1.7 percentage points below the State's average during FY2013.



The County's total payroll employment, as derived by the Department of Finance incorporating the establishment series from the Bureau of Labor Statistics (BLS), U.S. Department of Labor, for the Bethesda-Rockville-Frederick metropolitan division increased by 8,000 (↑1.7%) during FY2013. Total payroll employment stood at an estimated monthly average of 477,300 jobs during the FY2013 compared to 469,300 in FY2012. The discrepancy between

the series (6,100 versus 8,000) is attributed to the sources of payroll data. The DLLR series is derived from the unemployment insurance program while the BLS series is derived from a survey of establishments.

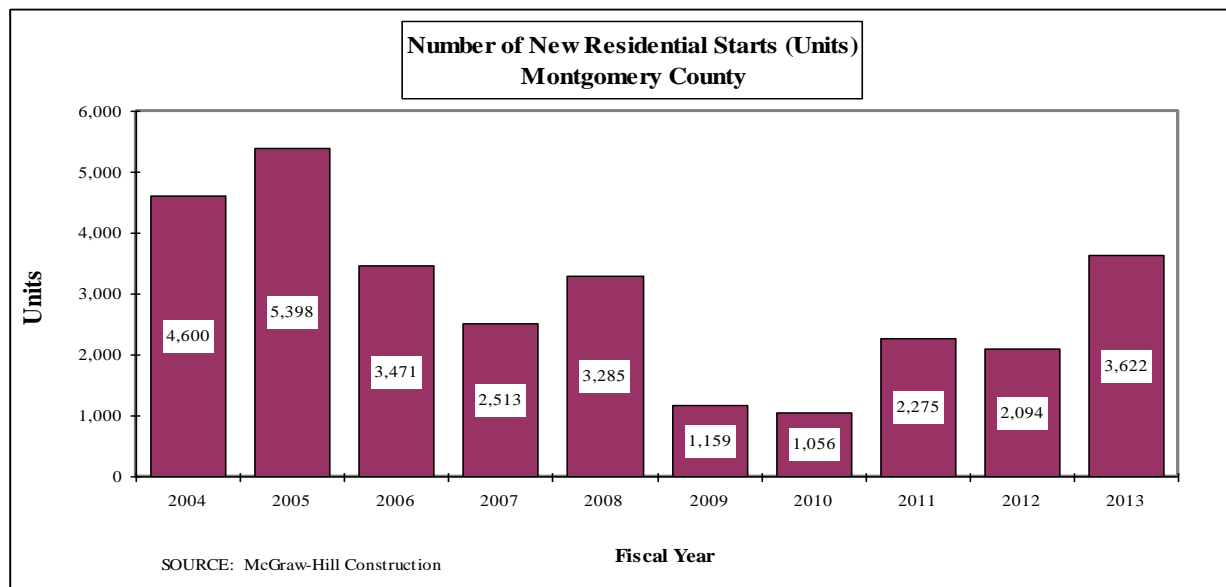


While the unemployment rate has remained at or above the 5.0 percent level for the past four calendar years, it has declined steadily since its peak in FY2010. The decline has been attributed to an increase in resident employment and a decline in the number of unemployed during the past two calendar years. On a fiscal year basis, employment grew by 10,525 over the two-year period while the number of unemployed declined 1.7 percent over the same period.

### ***Construction Activity***

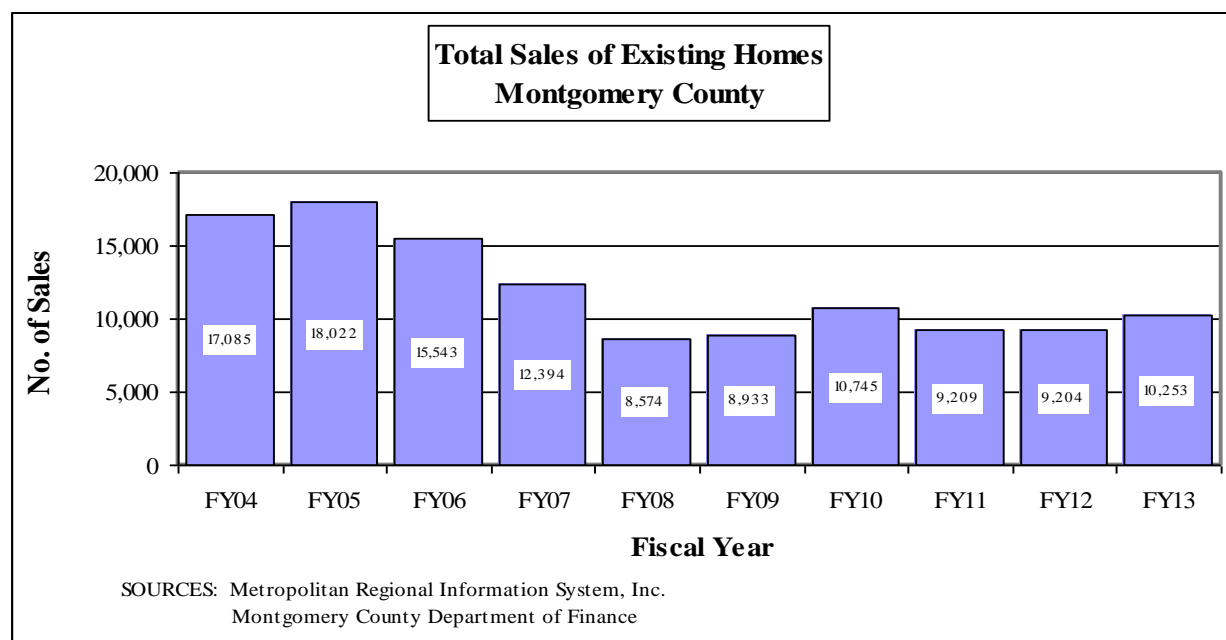
Construction experienced strong performance during FY2013. Strong residential construction starts of both multifamily and single-family units added a total value \$774.1 million – an increase of 69.1 percent over FY2012. Total construction of residential units increased nearly 73.0 percent from FY2012 to FY2013. The number of new single-family units increased 85.6 percent from 667 single-family units in FY2012 to 1,238 units in FY2013. Construction of single-family units in FY2013 was the highest number since FY2006.

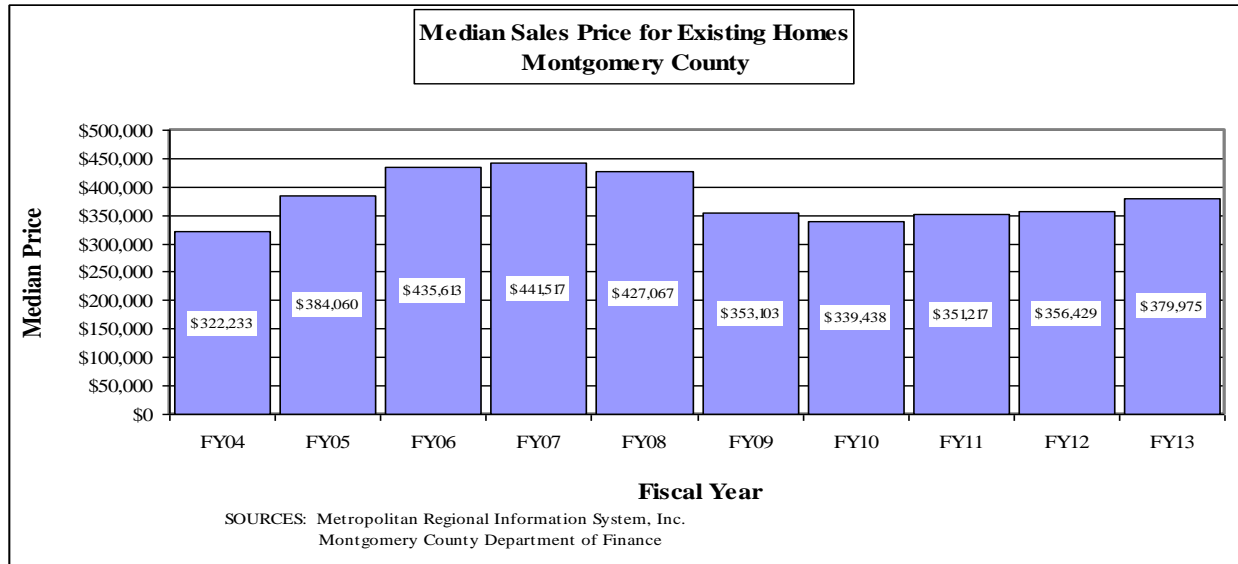
In addition, construction of non-residential properties was up 37.5 percent in FY2013 even though the number of non-residential permits was down just over 10 percent during that same period.



### *Residential Housing Market*

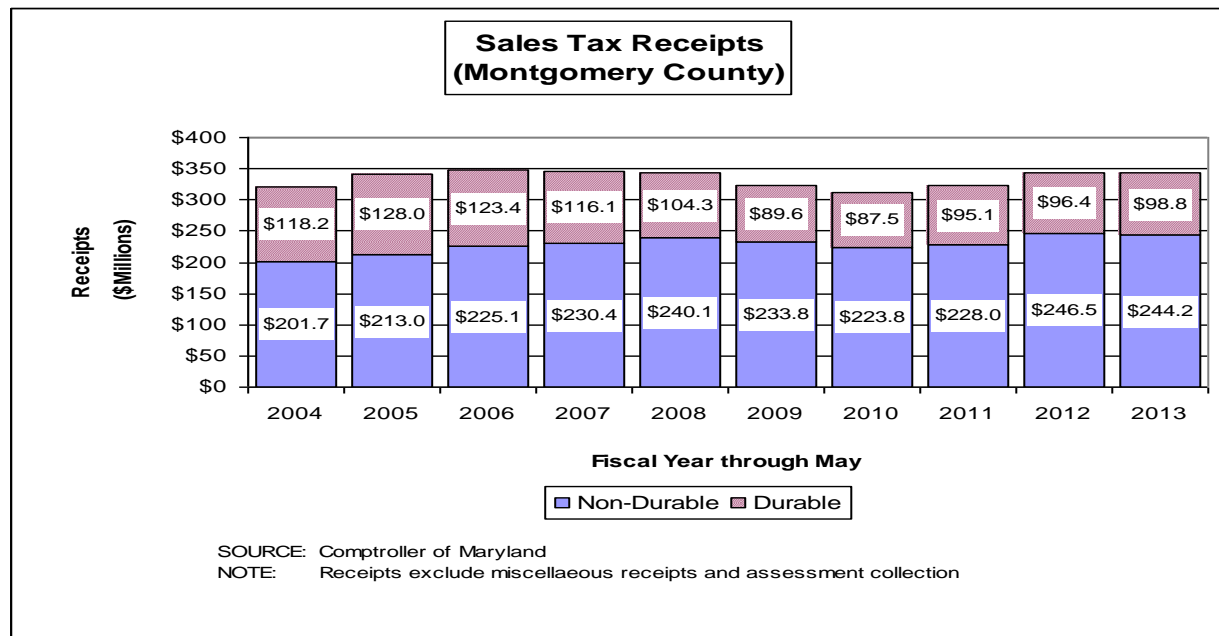
During FY2013, home sales increased 11.4 percent following a slight decline of 0.1 percent in FY2012 and a decrease of 14.3 percent in FY2011. Median sales prices for existing homes increased 6.6 percent in FY2013 and followed an increase of 1.5 percent in FY2012 and an increase of 3.5 percent in FY2011.





### Retail Sales

Using sales tax receipts as a measure of retail sales in the County, the growth in sales of durable and nondurable goods, excluding miscellaneous and assessment collections, increased 0.04 percent in FY2013 through May compared to the same period in FY2012. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 0.9 percent during this period while sales of durable goods were up 2.5 percent. The decrease in nondurable good purchases was largely attributed to utilities and transportation ( $\downarrow 3.2\%$ ) and sales of food and beverage products ( $\downarrow 2.5\%$ ). The increase in durable goods was attributed to sales of hardware, machinery, and equipment ( $\uparrow 7.9\%$ ).



## CONCLUSION

The major economic indicators confirm that the County's economy improved during FY2013:

- The average monthly unemployment rate declined to 5.1 percent from the peak of 5.9 percent in FY2010.
- Employment measured either by the survey of establishments or households increased in FY2013 causing a decline in the unemployment rate to 5.1 percent.
- Residential construction improved with the construction of single-family homes up 85.6 percent.
- Sales of existing homes increased and median sales prices also improved during the fiscal year.
- The overall inflation rate in the region remained subdued and
- Retail sales, particularly for purchases of durable goods, were strong.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2012
				2013	2012	
Leading Indicators						
National	June '13	0.0%		-0.2%		-1.1%
Washington MSA	May '13	0.7%		-0.1%	0.9%	0.2%
Coincident Indicators						
National	June '13	0.2%		1.3%		2.3%
Washington MSA	May '13	0.8%		3.4%	1.9%	5.2%
Consumer Confidence Index						
National	June '13	9.6%		3.7%	3.2%	2.9%
South Atlantic Region	June '13	-3.1%		6.7%	5.5%	-1.3%
Consumer Sentiment (University of Michigan)	July '13	-0.2%		5.9%	5.9%	4.3%
Consumer Price Index						
All Items (nsa)						
National	June '13	1.8%		1.5%	2.3%	2.1%
Washington - Baltimore CMSA	May '13	1.2%		1.5%	2.4%	2.2%
Core CPI (nsa)						
National	June '13	1.6%		1.8%	2.2%	2.1%
Washington - Baltimore CMSA	Mar. '13	1.5%		1.8%	2.6%	2.4%
Retail Trade						
National (sales - nsa)	June '13	3.7%		3.7%		5.2%
Maryland (sales tax)(1)	Apr. '13	1.3%		1.1%		2.8%
Montgomery County (sales tax)(1)	Apr. '13	-0.9%		-0.3%		1.2%
Employment						
Maryland (labor force data - nsa)	June '13	2,927,190	2,921,546	2,914,211	2,890,207	2,909,571
- Percent Change		0.2%		0.8%		1.4%
Bethesda-Federick-Gaithersburg (labor force data)	May '13	631,464	626,162	630,710	623,118	628,245
- Percent Change		0.8%		1.2%		1.0%
Montgomery County (labor force data)	May '13	509,326	505,050	508,718	502,595	506,730
- Percent Change		0.8%		1.2%		1.0%
Montgomery County (QCEW)	Dec. '12	457,131	456,239	n.a.	n.a.	450,880
- Percent Change		0.2%				0.7%
Unemployment						
Maryland (nsa)	June '13	7.5%	7.2%	6.9%	6.9%	6.8%
Bethesda-Federick-Gaithersburg (nsa)	May '13	5.5%	5.3%	5.2%	5.3%	5.3%
Montgomery County (nsa)	May '13	5.4%	5.1%	5.1%	5.1%	5.1%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	June '13	\$193,172	\$111,675	\$810,542	\$482,429	\$1,257,256
- Percent Change		73.0%		68.0%		-10.5%
Residential (\$ thousands)	June '13	\$112,360	\$79,264	\$477,607	\$240,355	\$535,940
- Percent Change		41.8%		98.7%		8.8%
Non-Residential (\$ thousands)	June '13	\$80,812	\$32,411	\$332,935	\$242,074	\$721,316
- Percent Change		149.3%		37.5%		-21.0%
Building Permits (Residential)						
National	May '13	94,859	75,407	392,836	306,904	815,512
- Percent Change		25.8%		28.0%		33.5%
Maryland	May '13	1,421	1,147	6,937	5,763	14,646
- Percent Change		23.9%		20.4%		20.1%
Montgomery County (units)	May '13	219	170	1,137	969	3,946
- Percent Change		28.8%		17.3%		55.9%
Building Permits (Non-Residential)						
Montgomery County	June '13	187	230	1,071	1,194	2,198
- Percent Change		-18.7%		-10.3%		13.5%
Construction Cost Index						
Baltimore	July '13	6,895.79	6,665.33	6,952.93	6,595.29	6,616.13
		3.5%		5.4%		3.5%
Real Estate						
National						
Sales (saar)	June '13	5,080,000	4,410,000	5,010,000	4,503,300	4,660,000
- Percent Change		15.2%		11.3%		9.4%
Median Price	June '13	\$214,200	\$188,800	\$189,500	\$169,600	\$176,600
- Percent Change		13.5%		11.7%		6.3%
Montgomery County						
Sales	June '13	1,250	1,049	5,297	4,757	10,094
- Percent Change		19.2%		11.4%		6.4%
Average Price	June '13	\$541,667	\$506,409	\$486,746	\$451,489	\$465,597
- Percent Change		7.0%		7.8%		3.1%
Median Price	June '13	\$430,000	\$413,000	\$390,008	\$360,333	\$367,125
- Percent Change		4.1%		8.2%		4.9%
Average Days on the Market	June '13	33	61	52	81	67

## NOTES:

(nsa): not seasonally adjusted

(QCEW): Quarterly Census of Employment and Wages

(saar): seasonally adjusted at annual rate

(1): Data include miscellaneous and assessment collections.

